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STATE PASS USTR DAVID BISBEE
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AMEMBASSY BANGKOK FOR RDM/A
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SUBJECT: STOCK MARKET PREDICTIONS

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11. (U) Summary: At the second annual Euromoney Institutional Investor Investment Forum held March 19-20 in Hanoi, a panel of investment experts in Vietnam offered their opinions on and predictions for Vietnam's volatile stock market. While all panelists agreed a market correction will occur within the next two years, they varied in their predictions on how large a correction it will be. Citing the massive overvaluation of 10-15 major companies as the source of the problem, analysts predicted that the market correction that does occur will be a healthy and necessary part of Vietnam's development. The panelists concluded that Vietnam's stock market fundamentals are sound enough to ensure that it will survive even a large correction and that foreign firms will continue to invest in the market for the foreseeable future as a result. All expressed strong optimism in Vietnam as an investment destination and confidence in the GVN's understanding of market fundamentals. End Summary.

12. (U) Vietnam's stock market has received much international and domestic attention in recent months, due mainly to its extraordinary levels of growth, as well as some very high price-to-earnings ratios. In the past four years, said Equity Markets Panel chairman Chris Leahy of Asiamoney, Vietnam's stock market has grown from a total listed value of USD 500 million to more than USD 16.5 billion. Daily trading volumes four years ago were about USD 500,000 a day. Last week, they reached an average of USD 60 million a day. This growth, coupled with the increased participation of Vietnam's growing middle class in both the listed market and the over-the-counter market, has attracted the attention of foreign investment firms, GVN regulators, foreign governments and international media.

THE BUBBLE'S BURST - WHEN AND HOW MUCH?

13. (U) While all panelists agreed that a market correction will happen in the next year or two, they were strongly divided on the question of how much the market will correct. On one hand, Kevin Snowball, Director of PXP Vietnam Asset Management, suggested that

the market will correct anywhere from 30 to 50 percent within the next two years, and possibly earlier if triggered by an unforeseen domestic event or regional market issues. Snowball stressed, however, that the GVN is already laying the foundation for a good recovery for what they too see as an inevitable event, and that its plans to move ahead quickly in the equitization of state-owned enterprises (SOEs) is the most prudent means of planning for a correction which Snowball characterized as "natural for an emerging market."

¶4. (U) Dean Van Drasek, Executive Director for Lim Advisors, disagreed slightly with Snowball, claiming that people "who talk the market down are not really invested here." He said there is no chance the correction will be as large as 30 to 50 percent, but more like 10 to 15 percent. Van Drasek emphasized that while there is a lot of interest in the top 10 to 15 stocks, making this a top-heavy market, the rest of the market is healthy and the correction will be shallow and quick.

¶5. (U) Finally, Fiachra Mac Cana, Director of Research at VinaCapital, concluded the discussion on market correction by observing that the "truth lies somewhere in between" the two predictions. He asserted that he does not see a correction happening in 2007 unless there is a problem with global liquidity levels or some outside event that prompts psychological reactions to trading and saving. The market will crash at some point in the near-term, however, and large international firms that have the cash will be waiting to buy in when it does.

OVERVALUATION

¶6. (U) Mac Cana then turned to a discussion of the Vietnamese market's overvaluation. He acknowledged that from a price-to-earnings (PE) ratio standpoint, the top 75 to 80 stocks trading are extremely overvalued, but in a market where few

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investors outside the major international firms are looking at PE ratios, this doesn't really matter. The key is liquidity, and as long as Vietnam's liquidity boom continues, it will sustain the overvalued PEs.

¶7. (U) Snowball agreed with Mac Cana's assessment, and added that in similar markets such as Bangladesh and Sri Lanka where PE ratios were as high as 70 and 80, the market sustained these rates for some time, but not forever. Eventually, any emerging market with such high PE ratios experiences a correction in valuation.

¶8. (U) Van Drasek expounded on this overvaluation issue, noting that there is essentially a two-tier market in Vietnam. Any stock with a PE ratio of more than 30 is essentially unsustainable given Vietnam's economic prospects and realities. However, many of the [Vietnamese] people participating in the market and buying these stocks have "no idea what a PE ratio is", and many of the foreign investment firms that are buying into the market in order to get themselves in the door and established "do not care what the PE ratio is." The result is that a portion of the market - about 10-15 stocks - functions without regard to standard trading practice. At the next level, there are 50 to 60 stocks trading normally whose average valuation is only about 14. This is normal for Southeast Asian markets, he added.

¶9. (U) On the point about the general public's awareness of PE ratios and other basics of trading, Mac Cana urged the GVN to improve the education process about the market. When middle class investors start losing huge sums of money, he added, they will come looking to the GVN for answers. On top of that, he added, there are a lot of international investors waiting on the sidelines to see what happens and to buy in when the crash does come, which will not help the politics of the situation. (Note: USAID has been a leading provider of technical assistance to the State Securities Commission (SSC) in (1) developing the new progressive Securities Law and related implementing regulations, (2) focusing on strategic factors in developing the equities market, and (3) understanding the risks and issues arising with explosive market growth. End note.)

THE OTC MARKET

¶10. (U) Van Drasek then cited the over-the-counter (OTC) market as another example of the need for greater education and public awareness. He commended the GVN for its efforts to bring several of the more legitimate companies which previously traded OTC onto the listed exchanges by removing the disincentives to listed trade. The GVN issued a series of rulings last fall which imposed the same regulations on OTC trades as on listed trades, prompting 59 companies in November and December 2006 alone to move to the listed market. In Van Drasek's opinion, this likely drained the OTC market of its real players, leaving only smaller, less profitable companies. "Most of what one hears about the OTC market in Vietnam is simply untrue", said Van Drasek. What is true, he added, is the fact that the estimated 2800 companies traded OTC produce no earnings statements and no publications on pricing, and thus no PE ratios or any reliable means other than word-of-mouth for evaluating these businesses. He concluded that the next wave of SOE equitization will probably kill off the last of any rational OTC trading that is taking place, as anything worth investing in will be listed formally on the exchanges.

SOE EQUITIZATIONS

¶11. (U) Despite the fact that all panelists acknowledged that SOEs and state-owned commercial banks (SOCBs) tend to list at far greater values than the companies are actually worth, these analysts remained optimistic about the SOEs expected to debut this year. Vietcombank, several food and beverage companies, and a large telecom firm were all mentioned as equitizations (although they will all be only partial equitizations) which the investment community is watching carefully. Van Drasek noted that Vietnam is the only market in the world where SOEs are listing at two to four times the value of similar companies on the exchange (i.e., where a food and beverage SOE will list for four times the value of a privately held food and beverage company already trading on the exchange) and getting away with it. The market is simply hot enough to absorb

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this overvaluation. Snowball agreed, and added that the GVN has studied emerging markets for years and it knows it is not stressing the market to list its SOEs in this way. However, as an industry develops around watching Vietnam's markets (journals, company review products, reporting, public analysis), there will be some correction in SOE valuation if the companies do not start producing better post-equitization. That is, apparently, a risk the GVN is willing to take.

GVN OVERSIGHT GETS A+

¶12. (U) In the end, all panelists agreed that the Vietnamese market is structurally very sound and well set up. One panelist did mention capital controls very briefly as a measure which the GVN had "recently considered, but now dismissed" as a means to cooling the market. Instead, he said, the GVN will continue to list parts of SOEs and keep the foreign ownership limitations in place indefinitely in order to keep the market growing at a more sustainable rate. Note: Foreign investors are currently allowed to own no more than 49 percent of a listed company and no more than 30 percent of a listed bank, of which a single investor may own no more than 10 percent. In 2006, there were rumors that these amounts would be lifted in 2007. However, the GVN has decided to postpone these increases indefinitely. End note.

¶13. (U) When asked to give a long-term prediction on the market's performance, all panelists agreed it would continue to do well even after the inevitable correction. They foresaw no real long term risks or fundamental problems, and all rated the future outlook as extremely optimistic, "setting aside the issue of valuation."

¶14. (SBU) Embassy comment: One private sector attendee told us a senior Ministry of Finance official said to him in a private

conversation that the Minister of Finance and central bank governor had had their "fingers on the trigger" to impose capital controls. This remark is in contrast to the general public image conveyed that Vietnamese government officials were simply considering the idea. End comment.

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